

**Achievement of Market Friendly Initiatives and Results
(AMIR 2.0 Program)**

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**Revised Terms of Reference for New
Social Security Investment Commission Law for the
Social Security Investment Commission**

Revised Final Report
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This report was prepared by Dr. Ronald E. Copley in collaboration with Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.

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Author: Ronald E. Copley

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Audit

Fiduciary Responsibilities

SSICs Executive Manager

SSIC Portfolio Managers

Abstract

The purpose of this report is to recommend key issues to be included in the Social Security Investment Commission (SSIC) new law. A related purpose is to clarify relationships and lines of communication primarily between the SSIC and the Social Security Corporation (SSC), and secondarily between the SSIC and all other relevant parties. The intent of these recommendations is, in the short-term over the next two years, to allow the SSIC to operate as a semi-autonomous body responsible mainly to the Chairman of the SSC. Over the longer-term, the intent is to allow the SSIC to operate as a fully functioning, independent “Investment Board” comprised of commissioners with a high degree of professional experience and competence in the investments industry.

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Executive Summary

One of the problems in constructing these recommendations is terminology. The original terminology in Regulation No. (111) of the Year 2001 was unclear as to identifying specific positions. Every attempt was made here to clearly identify the Chairman of the SSIC and the Chairman of the SSC as the two main people in each organization. When referring to either the SSIC Chairman or the SSC Chairman, I am also referring to each person's representative. Except where noted, I am making no distinction between the Commission's organization and its portfolio management function, and no distinction between the Corporation's organization and its administrative function. The new law would likely want to make these distinctions in order to provide more detail of the appropriate relationships.

REVISED TERMS OF REFERENCE FOR NEW SOCIAL SECURITY INVESTMENT COMMISSION LAW

Recommended issues to be included in the new law:

I. SSIC's Basis of Authority

Regulation No. (111) of the Year 2001, “Regulation for Investment of the Social Security Corporation Funds,” (the “Regulation”)¹.

II. Terms of Appointment for and Authority of SSIC Commissioners (ref: Regulation)

- a) SSIC Commissioners—see Regulation, Article (7)
- b) SSIC Chairman—see Regulation, Article (7)
- c) SSIC Vice-Chairmen—see Regulation, Article (7)
- d) SSIC Executive Manager—see Regulation, Article (13)

III. SSIC's Objective (ref: SSIC's Investment Policy Statement)

- a) Primary—invest for the sole benefit of plan participants by pursuing investments with the highest possible rate of return for any specified level of risk.
- b) Secondary—none

IV. Relationships of SSIC

- a) Relative to the Social Security Corporation (SSC):
 - i) Actuary report—the SSC's Chairman of the Board (the “SSC Chairman”), who is responsible for conducting the plan's actuary report, will keep the Commission's Chairman (the “SSIC Chairman”) informed of all activities related to the actuary report both in the planning stage and afterwards. The SSC Chairman will inform the SSIC Chairman of all related meetings between him or his representative and the actuary, and be responsible for inviting the SSIC Chairman to all such meetings. The SSC Chairman will

¹ Every attempt has been made to stay consistent with definitions contained in Regulation Article (2). If a conflict occurs, definitions of this document rule.

be responsible for copying the SSIC Chairman on all correspondence related to the actuary report.

- ii) Portfolio performance—the SSIC Chairman will be responsible for reporting portfolio performance to the SSC Chairman in a timely fashion following the end of each calendar quarter. The SSIC Chairman will include in his report certain statistical data standard in the investments industry and referred to in the Commission’s Investment Policy Statement (the “IPS”) including but not limited to the portfolio’s performance relative to pre-specified benchmarks, measures of risk, short-term, intermediate-term, and long-term asset allocation targets, current capital market conditions, and an evaluation of short-term, intermediate-term, and long-term capital market conditions. In addition, the SSIC Chairman will be responsible for submitting a timely report to the SSC’s Board of Directors (the “SSC Board”) at the end of each calendar year. This report will summarize the SSIC’s annual performance and expand on all statistical data included in the SSIC Chairman’s quarterly reports. The SSIC Chairman will also be responsible for reporting interim events of a material nature to the SSC Chairman in a timely fashion.
- iii) Budget—the SSIC will submit an annual budget request to the SSC Chairman not later than June 1 or the subsequent calendar year. The SSC Chairmen will be responsible for evaluating and approving said budget not later than August 1. The SSIC Chairman may, at his discretion, appeal the SSC Chairman’s final budget to the SSC Board in a timely fashion.
- b) Relative to the Counsel of Ministry—the SSIC Chairman will be responsible for answering all requests for information from the Counsel of Ministry in a timely fashion with copies of all information also provided to the SSC Chairman.

V. Transfer of Funds Between the SSC and the SSIC

The SSC Chairman will be responsible for transferring excess funds (income from subscriptions minus benefits paid to participants and other reasonable expenses necessary to the operations of the SSC) from the Social Security Corporation (the

“Corporation”) to the SSIC in a timely fashion. The SSIC Chairman will be responsible for reporting back to the SSC Chairman receipt of such funds in a timely fashion.

VI. SSIC’s Reporting Requirements (ref: SSIC’s Investment Policy Statement)

- a) Quarterly reports—see item 4 a) ii above
- b) Annual reports—see item 4 a) ii above
- c) Interim reports of material events—see item 4 a) ii above

VII. SSIC’s Requirement for Disclosure of Information (ref: SSIC’s Business Plan)

- a) Web site—the SSIC Chairman will be responsible for posting highlighted information from his quarterly report to the Chairman to the SSIC’s web site in a timely fashion.
- b) News media—all information pertinent to the Commission’s operations will come directly from the SSIC Chairman or his representative after sharing material information with the SSC Chairman.

VIII. SSIC’s Budget (ref: SSIC Business Plan)

- a) Source of revenues—see 4 a) iii above
- b) Constraints on expenditures—see 4 a) iii above
- c) Internal Controls—the SSIC Chairman will be responsible for reporting to the SSC Chairman any significant variance to the adopted budget in a timely fashion. The SSIC Chairman may submit budget amendments to the SSC Chairman for his evaluation and approval with the SSC Chairman being responsible for reacting to the request in a timely fashion. The SSIC Chairman may appeal the SSC Chairman’s decisions to the Board.
- d) External Controls—see 4 a) iii above

IX. SSIC’s External Audit Procedures

- a) Selection criteria of auditing entity—the SSIC Chairman shall be responsible for obtaining competitive bids for an external auditor by placing ads in the newspapers in a timely fashion. Selection criteria shall include but not be

limited to the perspective auditor's experience with at least 2 other organizations of similar size and purpose.

- b) Frequency of external audits—the SSIC Chairman will be responsible for conducting a full external audit of the SSIC Commission annually or when directed by the SSC Chairman for good reason.
- c) Entities to receive reports—the SSIC Chairman will submit copies of all external audit reports to the SSC Chairman.

X. Disclosure Requirements of Insider Knowledge

- a) SSIC's Commissioners (ref: Ethics Letter contained in the SSIC Commission's Operating Manual)—The SSIC Chairman shall require all SSIC Commissioners (including himself) to submit a personal balance sheet to him annually as well as a ledger of all the Commissioner's and his immediate family's investment activities at the end of each quarter. The SSIC Chairman shall also be responsible for obtaining from each SSIC Commissioner a signed letter stating that the SSIC Commissioner will not take advantage of any information he may obtain as a result of his affiliation with the SSIC Commission.
- b) SSIC Commission's employees (ref: Commission's Operating Manual)—the SSIC Chairman shall be responsible for applying the terms of 10 a) above to all SSIC Commission employees

XI. SSIC's Fiduciary Responsibilities

- a) SSIC Commissioners—see Regulation Articles (8) and (11)
- b) SSIC Employees—see Regulation Article (13)

XII. SSIC Meetings

- a) Place of Meetings—unless specified in advance, all meetings will be held at the SSIC Commission's headquarters.
- b) Reporting and recording keeping requirements—see item 4 above.
- c) Frequency of meetings—see Regulation Article (10)
- d) Policy on minutes and disclosure of minutes—see item 7 a above
- e) Policy on openness to media—see item 7 b above

- f) Parliamentary procedures:
 - i) Quorum requirements—see Regulation Article (10)
 - ii) Voting procedures—see Regulation Article (10)
 - iii) Setting of agenda—the SSIC Chairman shall be responsible for setting the agenda and conveying that agenda to the SSIC Commissioners at least 5 working days in advance of the regularly called meeting.
- g) Call of special meetings:
 - i) Party responsible for calling special meetings—the SSIC Chairman or 3 SSIC Commissioners can call a special meeting. If done by either, notice must be conveyed to the other SSIC Commissioners at least 3 days in advance.
 - ii) Circumstances necessary for calling special meetings—special meetings require extraordinary circumstances above and beyond those that normally occur and that require the Commission’s immediate attention.
 - iii) Notification requirements to SSIC Commissioners—see item 12 g) i) above.

XIII. SSIC’s Investment Policies (ref: SSIC’s Investment Policy Statement)

- a) Return Expectations—see SSIC Investment Policy Statement
- b) Risk Tolerance—see SSIC Investment Policy Statement
- c) Diversification requirements—see SSIC Investment Policy Statement
- d) International exposure—see SSIC Investment Policy Statement
- e) Management strategy:
 - i) Active—see SSIC Investment Policy Statement
 - ii) Passive—see SSIC Investment Policy Statement
- f) Methodology for evaluating performance—see 4 a) ii above
- g) Frequency of review—see 4 a) ii above
- h) SSC Chairman’s Approval—the SSIC Chairman shall obtain the SSC Chairman’s final approval for the Commission’s Investment Policy Statement not later than the end of each calendar year. The SSIC Chairman shall also be required to obtain the SSC Chairman’s prior approval for all investments

exceeding JD 100 million. The SSIC Chairman may appeal the SSC Chairman's decisions to the Board in a timely fashion.

XIV. SSIC Chairman's Responsibilities

See Regulation Article (12) and include the following

- a) Within the SSIC—the SSIC Chairman shall be responsible for all that happens or does not happen within the SSIC Commission. In exercising his responsibilities, the SSIC Chairman may hire a full time assistant and a public relations officer with funding specified in the budget above and beyond funding for the staff.
- b) To Parties outside the Commission—see items 4, 5, 6, 7 above

XV. SSIC Executive Manager's Responsibilities

- a) To the SSIC Chairman—the SSIC Executive Manager shall be responsible for conducting all activities and duties assigned to him by the SSIC Chairman. The SSIC Executive Manager shall serve at the pleasure of the SSIC Chairman.
- b) To SSIC Portfolio Managers who report to the SSIC Executive Manager—SSIC Portfolio Managers shall serve at the pleasure of the SSIC Executive Manager with concurrence of the SSIC Chairman. Managers shall be responsible for all activities that occur or do not occur in his department.

Notes

- a) The attorneys may want to use current documents referred to above in drafting the new law. I offer reference to these materials for the purpose of helping identify the main issues to be addressed in the new law and not for the purpose of constraining the wording of the new law. After the new law is passed, I suggest appropriately modifying the wording of current documents to fit the new law opposed to trying to create a new law that fits wording of these documents.
- b) It is my intention that recommendations presented here apply to the SSIC Commission over the next 2 years with the further intention that the SSIC Commission should operate as a fully functioning, independent "Board of

Investments” not later than December 31, 2005. The purpose of this interim 2 year-period is to provide the SSIC Commission an opportunity to achieve experience operating as a team with a proven track-record. Independence from all political entities is a desirable longer-term goal in order to allow the SSIC Commission to focus its entire energies on financially viable investment opportunities absent pressures from the political process.